

VZCZCXYZ0003
PP RUEHWEB

DE RUEHJB #0657/01 2550749
ZNR UUUUU ZZH
P 120749Z SEP 07
FM AMEMBASSY BUJUMBURA
TO RUEHC/SECSTATE WASHDC PRIORITY 0577
INFO RUEHXR/RWANDA COLLECTIVE PRIORITY

UNCLAS BUJUMBURA 000657

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR AF/C

E.O. 12958: N/A
TAGS: [PINR](#) [PREL](#) [BY](#) [PGOV](#)
SUBJECT: IMF COMMITTED TO EVENTUAL BURUNDI BUDGETARY
ASSISTANCE, BUT IN THE MEANTIME...

REF: BUJUMBURA 564

¶1. (SBU) SUMMARY: International Monetary Fund (IMF) representative Israel de la Piedra briefed a small number of the diplomatic corps on a proposed IMF budget review in a September 11 meeting. A positive review of the Government of Burundi (GOB) budget will allow for the release of \$93 million in much needed donor budgetary assistance. (Note: It is widely reported that the GOB is having liquidity problems, and civil servants went unpaid for August salaries until September 10. End Note) Piedra said the IMF will no longer review the 2007 revised budget and instead will move to the 2008 budget, eliminating the possibility of President Nkurunziza's proposed 34% civil servant salary increase taking place this year.

¶2. (SBU) Piedra cited a lack of time and a desire to start with a clean slate as the principal reasons for moving on to the 2008 budget. The IMF representative suggested there may be a way for the GOB to obtain short term financing from the central bank, but stressed that non essential programs will have to be cut and that the GOB will be working on a "cash budget" for the next several weeks. Several members of the diplomatic corps pointed out the negative potential a cash strapped government can have on Burundi's stability, and vowed to take preventative measures to avoid potential problems. The World Bank and the Government of Norway representatives proposed exploring alternative methods outside IMF budget review as a means to disperse their donor money. Attendees at the meeting vowed to communicate a common message to assure that the government, the media, and the public understand the IMF's decision. END SUMMARY

¶3. (SBU) In a September 11 meeting, International Monetary Fund (IMF) representative Israel de la Piedra briefed a small number of the diplomatic corps on the proposed IMF budget review. Upwards of \$93 million in budgetary assistance from the World Bank (WB) and other donors hinges on a positive review. Piedra informed the diplomatic corps that the IMF will not review the 2007 revised budget but will instead start with a fresh slate and review the 2008 budget at the conclusion of the annual IMF and WB meetings in Washington, DC., October 19-21. The budget review will then move to the IMF board in Washington for approval at the beginning of January. Dispersal of funds could follow seven days later if the IMF board approves the budget.

¶4. (SBU) The immediate impact of the IMF's decision to drop the 2007 revised budget is that President Nkurunziza's proposed salary increase of 34% to civil servants will go unrealized this year. The revised budget was to include the salary increase announced in a May 1 public speech by Nkurunziza. To offset the salary increase, the Government of Burundi (GOB) intended to demobilize a certain number of

soldiers. Piedra acknowledged that the Government of Burundi (GOB) now finds itself in a difficult political position, but said that the IMF finds it impractical to attempt to review the revised budget in light of the short amount of time before the end of the year. The promise of a salary increase proved to be politically popular for Nkurunziza when he made the announcement in May, but now he will be obliged to delay the increase until at least 2008. The possibility of a retroactive increase does exist.

¶5. (SBU) Piedra highlighted another issue of critical importance to the IMF, the Interpetrol scandal (reftel), and the inadequate time for the GOB to address the issue. Piedra mentioned that the IMF expects the GOB to recover some of the \$17 million that allegedly was misallocated to local petroleum import company Interpetrol. Additionally, the IMF insists that the GOB establish criminal responsibility for misappropriation of funds to Interpetrol. Also the IMF wishes to complete an audit of all the oil companies importing oil to Burundi over the last several years to avoid a reoccurrence of the same problem. Finally the IMF desires that the GOB establish processes and safeguards within the government and the central bank to increase transparency and prevent further corruption.

¶6. (SBU) The GOB has made progress on the judicial process and in recovering some of the money, according to Piedra. An IMF technical team will be here at the end of the month to work with the central bank and the Ministry of Finance on strengthening operating procedures and protocol. Piedra stressed that the IMF wants to disperse the budgetary assistance to the GOB, and that is why they are moving forward with a review rather than dropping its planned review all together. Piedra praised the GOB for its open communication with the IMF but cautioned that the GOB should

be making a greater effort to confront the owner of Interpetrol company to recover funds and resolve the disagreement.

¶7. (SBU) In order for the GOB to address its liquidity problems in the period between now and mid-January, Piedra suggested the GOB, with IMF support, will seek out a bridge loan from the Burundi Central Bank. According to Piedra,

although the GOB has reached its limits on borrowing from the Central Bank, he believes the IMF can come up with a creative financing option that will allow them to borrow between \$30 and \$40 million to see them through the lean times. Piedra continued that the GOB will also be required to cut all non-essential programs and likely work on a cash money budget. For example, the GOB only recently paid its civil servants for August, while normally civil servants are paid at the end of each month for the preceding month.

¶8. (SBU) Representatives of the Government of Norway and the WB said that their organizations might release funds if signs from the budget review at the end of October are positive. The WB stressed that in order for them to disperse funds, a stable macro economic framework must be in place. It is usually IMF board approval, he stated, that the WB uses as evidence of that framework. In light of the special circumstances in Burundi however, the WB might be willing to use alternative evidence to fulfill that requirement. The representative from Norway echoed the WB rep, adding that suspension of budgetary assistance this year could jeopardize future Norwegian budgetary assistance.

¶9. (SBU) The WB rep added that the WB is optimistic that the GOB will fulfill the requirements set forth by the IMF to conclude a positive budget review. However, he countered that the WB does not want to send the message that the WB is "soft" on good governance requirements. Otherwise, he said, this problem will only continue.

¶10. (SBU) Some members of the diplomatic corps pointed out to Piedra that not providing money for 2007 could lead to serious political unrest in this already shaky post conflict

country. In response, Piedra recommended that the international donors find a way to address the most serious weaknesses to avoid a return to conflict. In response, representatives stressed a need to immediately undertake preventative measures that they see as stabilizing the country in the near term.

¶11. (SBU) The UN rep at the meeting advised that the IMF and diplomatic community in Burundi coordinate a common communication strategy aimed at combating negative impressions held by some at the UN towards the IMF. The UN rep requested that each mission work diligently to educate its representatives in New York that the IMF's intent is not to sacrifice the average Burundian because of the bad actions of a few. Indeed not, replied Piedra, the IMF wants to insure that donor money is not immediately siphoned away by corrupt officials.

¶12. (SBU) COMMENT: The political impact of a delay in the 34% salary increase for civil servants is problematic for President Nkurunziza's administration. Because the delay is directly linked to the Interpetrol scandal and the corruption in the government, the media and the public will continue to criticize the incumbent administration for its ineffectiveness. Additionally, the announcement of the delay comes at a difficult time for the President, since he is already trying to salvage negotiations with rebel group PALIPEHUTU-FNL and overcome a political impasse in the National Assembly. To date, President Nkurunziza has yet to take a strong role in leading Burundi out of its current quagmire; unless this short term budget crunch is carefully managed, it may permanently damage the President's reputation. END COMMENT
MOLLER